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Report Highlights:

South Africa's 2007/08 wine grape production is expected to increase slightly by 1 percent from last year to 1.365 million metric tons (MT) because of cool weather conditions and excellent rains during the growing season. Grape wine is also expected to increase slightly by 0.3 percent from 7.378 million hectoliters (HL) in 2006/07 to reach 7.401 million hectoliters (HL) in 2007/08. South African wine exports are expected to remain unchanged at 3.1 million HL in 2007/08.

Includes PSD Changes: No
Includes Trade Matrix: No
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Executive Summary

South Africa's 2007/08 wine grape production is expected to increase slightly by 1 percent from last year to 1.365 million metric tons (MT) because of cool weather conditions and excellent rains. However, these conditions sometimes lead to fungal disease infections that increase farmers' costs for preventive management programs. Grape wine production is also expected to increase slightly by 0.3 percent from 7.378 million hectoliters (HL) in 2006/07 to reach 7.401 million hectoliters (HL) in 2007/08. South African wine exports are expected to remain unchanged at 3.1 million HL in 2007/08. Exports of red wines are growing three times more than white wine, and a shortage for red wine is expected by 2010.

Note: In recent years the U.S.\$/Rand exchange rate has been as follows:

2005 = 6.34

2006 = 6.75

2007 = R7.03

2008 = R7.50 (February)

Grape wine production area

South Africa's area for wine production amounted to 102,146 hectares in 2006/07. There are 8 major growing regions in the Western Cape for wine grapes. In 2006/07, 55 percent of wine grapes produced in South Africa were white wine varieties. In 1998, white wine vines covered more than 86.8 percent of South Africa's wine production area. The leading Chenin Blanc white variety and Cabernet Sauvignon red varieties covered about 19 percent and 13 percent of the total wine grape area respectively. Other preferred grapes during the past five years have been Chenin Blanc, Sauvignon Blanc, and Chardonnay for white varieties, and Shiraz 10 percent, Merlot 7 percent, and Pinotage 6 percent for red varieties. Producers increased the grape area for Chenin Blanc, Sauvignon Blanc, and Chardonnay because of a shortage experienced in the last two years.

Progress post apartheid in the wine industry is very slow with less than 1 percent of the sector represented by black ownership. South Africa is in the midst of an economic and social transformation which includes the wine sector.

Background

In 2006/07, South Africa had 4,360 primary wine grape producers and 581 wine cellars. About 51 percent of the total wine grape farmers crush at least 100 MT of grapes or less annually. The major production areas in 2006/07 were Malmesbury, Stellenbosch, Paarl, Worcester, Robertson, Olifants River, Orange River, and the Little Karoo. The top five planted varieties were Chenin Blanc, Cabernet Sauvignon, Colombard, Chardonnay, and Sauvignon Blanc. The low-cost wine sector grew at a very high rate, and now represents up to 80 percent of the national and international market.

Production

The industry estimates committee for wine grapes expects South Africa's 2007/08 wine grape production to increase slightly, about 1 percent compared to last year to 1.365 million metric tons (MT) because of cool weather conditions and regular rains. However, these conditions also contribute to fungal disease infections that increase farmer costs as they must have preventative management programs.

The 2007/08 harvest began in the Robertson production area in January two days later than normal. Pinot Noir grapes, which are the first variety picked, are mainly used as a base wine for methode cap classique, South Africa's sparkling wine produced according to traditional champenoise method. The total harvest is 10-14 days later than normal, which traditionally suggests a large crop. The harvest is expected to end in April.

The Orange River production area is expected to yield a larger crop in 2007/08 than in 2006/07, despite some hail damage that occurred in November 2007. Increases in production are also possible in Malmesbury, Stellenbosch, and Paarl regions, while Worcester/Breedekloof and Robertson regions are expected to decrease. Grape wine production is expected to increase slightly by 0.3 percent from 7.378 million hectoliters (HL) in 2006/07 to reach 7.401 million hectoliters (HL) in 2007/08.

Consumption

The economic situation in South Africa has improved significantly since 1999. Economic growth slowed slightly in 2001 and 2002, before increasing to remain stable at 5 percent a year since 2003. Growth is averaged about 4.3 percent a year over the forecast period (FY 2008/9) Unemployment decreased as the economy provided over 1.5 million jobs over the

last 5 years. Additionally, the government reports significant increases in tax revenues in 2007/08 and further increases are forecasted for 2008/09.

Consumer spending in 2008 will be slow, due to high food inflation, increasing petrol prices, and higher 'sin taxes' (tobacco and alcoholic beverages). Last year's repo rate increased 1.5 percent. The government implemented a new Credit Act that monitors consumer's access to financial loans. Also, imports far exceed exports bringing the current deficit account at \$19 billion a year.

However, a gradual increase in total local consumption of wine is possible in 2007/08 because of increasing market promotion and awareness in the township areas. These areas are populated mainly by Africans who are largest consumer group in South Africa (79 percent of the total population of about 48.5 million). Wine consumption in these areas was influenced negatively during the apartheid era when sale of wine to Africans, Indians, and other non-European people was prohibited.

Post estimates the 2007/08 domestic consumption of wine to increase by 7.9 percent from last year to 4.185 million HL. Post forecasts the 2008/09 domestic consumption of wine to increase by 5.5 percent from 2007/08 to 4.415 million HL.

Wine market requirements

South Africa's 2007/08 total wine market requirement is expected to increase by 4.7 percent from last year to 6.9 million HL because of increased wine grapes production.

Per capita wine consumption

In 2006, South Africans consumed about 3.45 million HL of wine. Of the total, 3 million HL was natural wine, 0.35 million HL was fortified wine, and 0.09 million HL was sparkling wine. Per capita consumption of wine in 2006 reached 10.42 liters, which includes 9.10 liters of natural wine, 1.05 liters of fortified wine, and 0.27 liters of sparkling wine. (Per capita is calculated based on adult population of 33.12 million, which comprises of 30.528 million people between the ages 15-64 in addition to 2.592 million people 65 and above. Reference: Community Survey 2007).

Trade Channels

South Africa's main wine buyers are grocers and chain stores. Woolworths chain stores buy mainly bulk wine that they bottle for their own label. Loyal wine drinkers are no longer buying vintages in large quantities to cellar it, they are now buying from the local grocery stores that give them greater variety.

Bottling

The most popular bottling size for South African wines is the 0.75 liter bottle. Wine is sold locally in bottles or in 5 liter boxes with the foil inside that has a tap. In restaurants, one can also get a 0.25 liter bottle, especially for sparkling wine. The bottles are usually corked and sell from about \$4.00. Although natural corks are still used especially for higher priced wine, there is a gradual increase in the use of plastic corks.

Trade

Imports

South Africa imports far less wine than it exports. Imported wine for sweetening, mainly imported by wine producers, is expected to decrease by 12,000 HL from 2006/07 to reach 25,000 HL in 2007/8 because of increased wine grape production. Imported bulk grape wine is expected to decrease by 16.3 percent from 2006/7 to reach 77,000 HL in 2007/08.

Exports

South Africa's total exports of bottled natural and non-fortified wine is expected to reach 3.12 million HL in 2007/08, a significant increase of 15.9 percent from 2.69 million HL in 2005/06 because of an increase in total grapes harvested. Exports of red wines are growing three times faster than white wines and a shortage for red wine is expected by 2010. Post forecasts 2008/09 grape wine exports at 3.25 million HL, a 4.2-percent increase from 2007/08, because of higher export prices.

South Africa's export markets expanded because of access to new markets. Five years ago the traditional markets for South African wine were the U.K. and the Netherlands, representing 72 percent of total exports. Recently, Wines of South Africa (WOSA) reports that about 70 percent of total wine exports are destined for the U.K, Sweden, the Netherlands, Germany, and the U.S.

In 2006/07, South Africa's wine exporters had sales that were characterized by heavy discounting, as all major markets demanded more bulk wine than bottled wine. As a result, South African bulk wine sales to the U.K. increased 6 percent. This trend is expected to continue in 2007/08 and 2008/09. South Africa also increased its export volumes destined for Sweden, Denmark, and Finland. South Africa's exports to Germany also increased 40 percent, making Germany the fifth largest export destination for South African wine. Exports to Canada increased in volume (for Quebec) 76 percent to reach 175,000 cases in twelve months to September. Quebec accounts for 40 percent of Canada's total wine consumption.

South Africa's total exports destined to the U.S. increased more than 9 percent from 2005/06 while exports destined to Russia grew fourfold from 2005/06. The wine exporters expect to expand their market share in Russia.

Stocks

South African grape wine stocks are expected to reach 4.745 million HL by December 2008, which is 198,000 HL less than in 2007. Compared to 2006, this represents a significant increase in stocks of 714,000 HL. Stored wine is held in both private and producer cellars.

Policy

Genetically modified yeast for wine

South African wine is not produced using GMO technology. In September 2007, the South African government rejected an application from local scientists to sell genetically modified yeast to local wine producers. This malolactic yeast is said to have some properties that reduce headache-causing amines in drinking wine. The government's rejection was based mainly on economic considerations rather than health or environmental concern.

SA-EU Wine and Spirit Agreement

The SA-EU Wine and Spirits Agreement formed part of an agreement on trade, development and cooperation between the European Community and its Member States that was signed on October 11, 1999 and entered into force provisionally on January 01, 2000. The Agreement gave South Africa free access to the European market in exchange for discontinuing the use of European names of origin – such as sherry, port, grappa, and ouzo by 2012.

Negotiations are still continuing between South Africa and the E.U. on the wine and spirit part of the agreement because South Africa has not ratified the agreement. South Africa has major concern with the geographic indicator clauses in the wine and spirits section of the agreement and the impact such an agreement could have on the South African wine industry. Products impacted by this agreement are geographically linked wine, spirits and other product names like 'feta' cheese. The government faces serious challenges with its constitution that protects property rights. Therefore, deregistering of trademarks may result in the affected industries suing the government for compensation. Until the agreement is ratified, the South African liquor industry will not have access to the 15 million Euros the EU promised to pay the wine industry as compensation for discontinuing the use of European names of origin.

Other policy changes

In July 2007, the wine industry submitted a draft industry transformation charter for the Minister of Agriculture's approval. The charter satisfies a government requirement that all industries outline goals to achieve economic transformation consistent with the goals of Black Economic Empowerment. To download the charter, please go to; [Http://www.vinpro.co.za](http://www.vinpro.co.za)

On September 14, 2007, the Minister of Agriculture published amendments to the Regulations of the Liquor Products Act, 60 of 1989 to include the following:

- Prohibition of off-consumption sale in foil bags: Liquor product destined for off-consumption by the public must be sold in a self-supporting container that retains original or assembled shape irrespective of whether it is filled or empty,
- Standards for bag-in-a-box: Sales in foil bags are still allowed for on-consumption on retail premises, but they should be installed in closed dispensers that comply with the prescribed oxygen permeability limits and must not exceed 5 liters,
- Standards for plastic containers: A plastic container prepackaged containing a liquor product must be equipped with sealed, tamper-proof cap, also of capacity not exceeding 5 liters and the prescribed maximum allowable oxygen permeability,
- Indication of filling date: The label of a liquor container (excluding a bottle) must read: Filled on, followed by the date (dd/mm/yyyy) to indicate the date the container was filled (Wine Law, September 17, 2007).

Regulation for Health Warning labeling on alcohol products

South Africa's Industry Association for Responsible Alcohol Use obligated to encourage the liquor industry to show health warnings on labels for products destined for the local market, which will be effected as from February 24, 2009. The regulations require container labels for alcoholic beverages to contain at least one of the following messages: 'Alcohol reduces driving ability, don't drink and drive'; 'drinking during pregnancy can be harmful to your unborn baby'; 'Alcohol abuse is dangerous to your health'; 'Alcohol increases your risk to

personal injuries'; 'Alcohol is a major cause of violence and crime'; 'Alcohol is addictive'; and, 'don't drink and walk on the road, you may be killed'.

The message must be incorporated anywhere on the information label of a container for the final consumer, on a white space that is about one eighth of the total area of the label. The message must be written in black, be visible, legible, and indelible. The Health Warning Act can be found at: [Http://www.sawis.co.za](http://www.sawis.co.za).

Marketing

South African exporters are concerned about the increasing demand for bulk wine compared to bottled wine. This new trend is creating job losses in the bottling industry because of the lower demand for bottles. It also reduces the opportunity for wine exporters to expand their brand and product ownership internationally. In 2006, bottled wine decreased by 7 percent while bulk wine exports increased by 4 percent from 2005.

The shift in demand from bottled wine to bulk wine by the international markets is a result of big supermarkets preference to sell wine under their own label. These supermarkets' main objectives are to reduce their input costs (transport and packaging), and to operate at economies of scale through consolidating all imported wine. In South Africa, Consol, a glass manufacturer, has a monopoly in the market, which increases the bottling costs.

However, WOSA indicates that some of the U.K.'s big companies acquire South Africa's large export brands and retain them. A typical example is Kumala wine brand, which went through acquisitions with Vincor, and then Constellation, the latter that is now promoting this brand. Another South African brand, 'FairCape', is also the fastest growing brand and ranks in U.K.'s top 20 wines.

Wine Certification

South Africa's wines of origin must comply with the requirements of the Wine of Origin Scheme. The wines are made under strict control, from harvesting grapes to the final product to maintain origin, variety, and vintage. The Wine and Spirit Board assess the wine for conformity to the prescribed standards before providing a certification seal for the bottle.

Tables and graphs

Grape wine production area						
	2004/05			2005/06		
	Red grapes	White grapes	Total	Red grapes	White grapes	Total
New plantings(Ha)	929	2,643	3,572	550	2,507	3,057
Uprooting (Ha)	1,130	1,924	3,054	1,439	2,349	3,788
Total wine grapes planted (Ha)	947	2,707	3,654	536	2,520	3,056

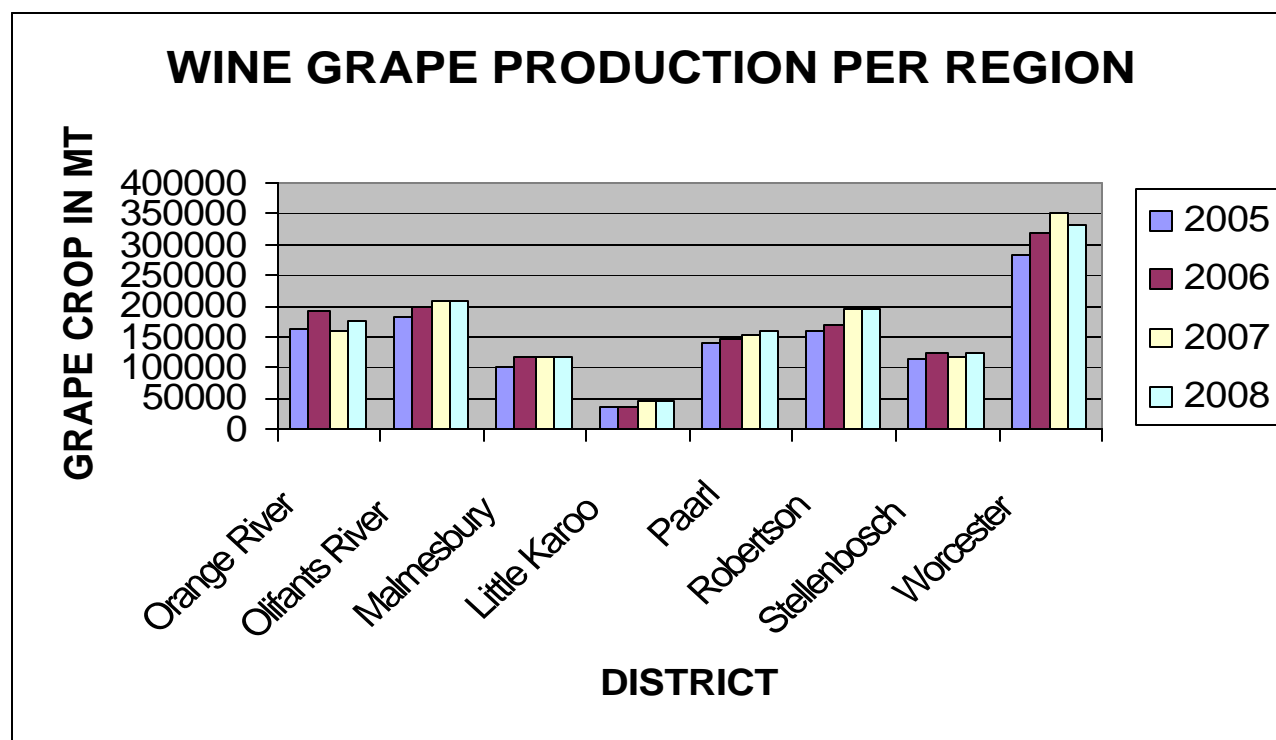
Source: SAWIS

Grape production area and total vines n 2006/07						
Vine Types	Vines	Hectares	Vines	Hectares	Vines	Hectares
Wine grapes *	305 009 754	100 207	307 783 674	101 607	308 259 370	102 146
Sultana **	20 349 375	11 392	19 552 681	10 983	18 874 863	10 571
Table grapes **	25 061 341	12 700	25 627 105	13 066	26 089 495	13 296
Rootstocks	282 742	96	262 455	83	213 699	69
Currants ***	1 043 613	354	976 901	336	974 346	337
Total	351 746 825	124 749	354 202 816	126 075	354 411 773	126 419

* = Includes hanepoot that is also used as table grapes and raisins

**= Only portion of production is used for wine production

***= For raisins only



South Africa's Total wine grape crop in MT (Jan Dec)			
	2006/07	2007/08*	2008/09**
Total MT	1,352,040	1,365,256	1,378,900
Grape Wine (in '000 HL)	7,378	7,401	7,500
Total Wine production (in '000 hl)	10,495	10,578	10,610

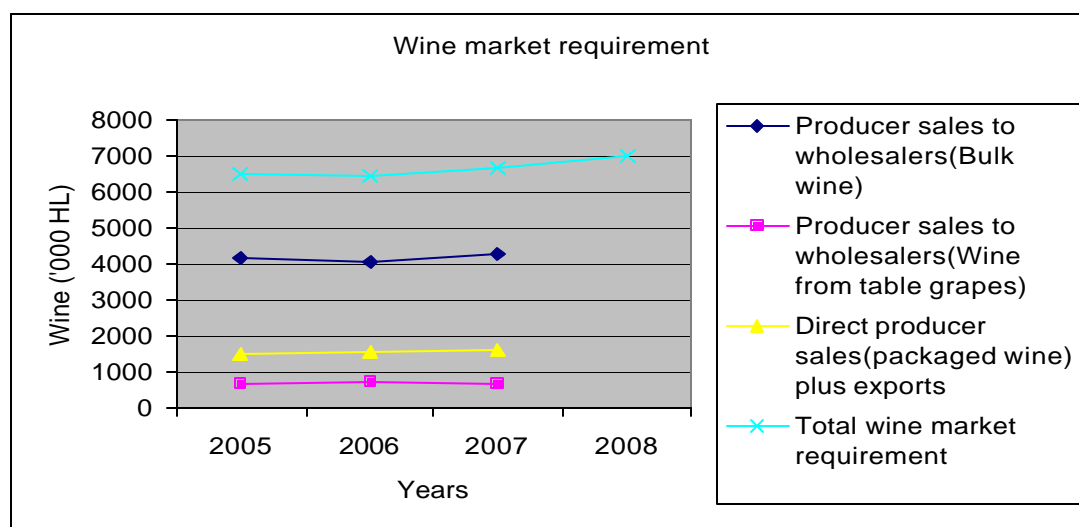
* = Industry estimates, **=Post forecasts

South Africa's aggregate wine production					
Wine Produced	Average percent alc/vol in 2007	Thousand HL			
		2005/06	2006/07	2007/08*	2008/09**
Grape Wine		7,097	7,378	7,401	7,500
Wine for Brandy	11.31	821	1,023	879	910
Grape juice concentrate and grape juice	11.64	732	655	705	700
Distilling wine	9.78	1,479	1,439	1,593	1500
Total		10,130	10,495	10,594	10,610

Source: SAWIS, * = Industry estimates, ** = Post forecasts

GRAPE WINE PRODUCTION AND DISTRIBUTION '000 HL						
	2005/06	2006/07	2007/08*	2008/09*	Percentage change 08/07	Percentage change 09/08
Production	7097	7378	7401	7500	0.3	1.3
Stock beginning	2442*	4031	5547	4745	12.8	4.4
Imports						
By Vintagers for sweetening	70	37	25	30	-32	20
By wholesalers in bulk	113	92	77	75	-16.3	-2.6
Total imports	183	129	102	105	-20.9	0
Total Supply	9722	11538	12050	12350	4.4	2.5
Exports	2691	3112	3120	3250	0.2	4.2
Domestic Consumption	3000	3879	4185	4415	7.9	5.5
Stock End	4031	4547	4745	4675	4.4	-1.5
Total Distribution	9722	11538	12050	12350	4.4	2.5

Source: SAWIS * = Post estimates



South Africa's domestic sales of natural wine in '000 HL (Nov – Dec)			
	2005/06	2006/07	Percent 07/06
Wholesalers	1538	1690	9.9
Private Cellars	230	369	60
Producer Cellars	891	1049	17
Sub-total	2659	3108	16.8
Wine component of alcoholic fruit beverages	33	4	-87.9
Grand total	2692	3112	15.6

Source: Updated from SAWIS Data - include imported bottled natural wine

South Africa's total wine production, sales and stocks (January – December)				
Wine Produced	Thousand HL			
	2005/06	2006/07*	2007/08*	2008/09**
Total wine stock at private & producer cellars on 1 Jan		4031	4547	4745
Grape Wine Production	7097	7378	7401	7500
Imported natural wine & must for sweetening	70	37	25	30
Less: Sales	6327	6581	6911	7300
Transfers(previous vintages)	36	97	97	100
Destroyed/shortages	182	220	220	200
Total wine stock at private & producer cellars on Dec 31	4031	4547	4745	4675

Source: SAWIS, * = Industry estimates, ** = Post estimates

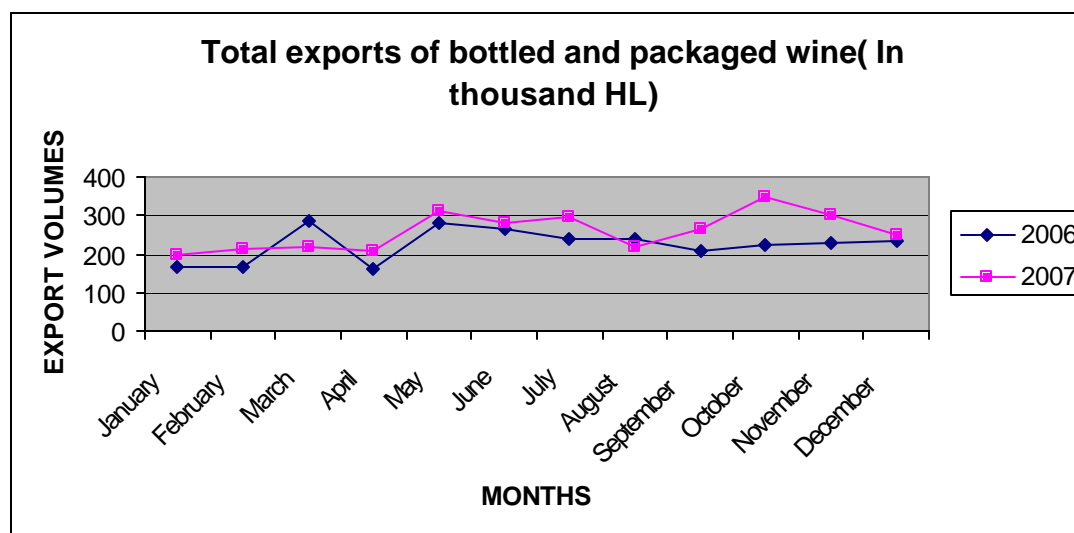
South Africa's local average prices for wine in bulk (Rand/HL)			
Wine Varieties	Jan-Dec		Jan-Nov
RED WINES	2005	2006	2007
Cabernet Sauvignon	557.12	476.23	416.21
Cabernet Franc	384.92	408.12	433.01
Merlot	471.33	426.29	395.14
Pinotage	443.73	392.88	397.43
Ruby Cabernet	411.45	393.36	304.79
Shiraz	548.21	514.37	461.56
Cinsaut	396.57	349.50	318.47
Pinor Noir	652.16	420.45	670.94
Rose & Blanc de Noir	305.31	304.68	297.03
Other reds & blends	417.72	386.66	351.03
All red wine	440.49	406.02	375.46
WHITE WINES			
Chardonnay	494.22	495.11	474.06
Sauvignon Blanc	522.11	547.53	518.55
Colombar	277.70	293.68	298.06
Riesling	313.12	323.79	318.72
Semillon	332.64	339.03	353.90
Chenin Blanc	304.43	317.27	323.03
Other white & blends	254.85	274.39	276.36
All white wine	297.57	310.51	316.37
Fortified wine	346.88	354.58	372.98
All wine	338.35	338.42	336.68

Source: SAWIS

HS Codes: 2204 (Include 220410, 220429, 220430, 22042140, 22042150, 22042130)–

Export Tables

NOTE: We used Industry exports because of the unexplainable significant differences from the WTA data.



Source: Updated from SAWIS data

South African Exports (bottled and packaged wine) HS CODES: 2204 (STILL WINE) JANUARY - DECEMBER '000 HL					
Rank 2007	Country	2005	2006	2007	Percent Change '07/06
7	United States	100.1	106.7	112.9	5.80
1	United Kingdom	1021.6	819.3	871.0	6.31
2	Germany	359.0	415.5	596.3	43.51
3	Netherlands	469.3	368.1	290.5	-21.08
4	Sweden	200.1	231.2	259.9	12.41
9	France	54.3	85.5	69.5	-18.71
5	Denmark	97.2	120.1	133.6	11.24
6	Canada	125.9	120.0	130.9	9.08
8	Belgium	81.9	91.2	95.8	5.04
12	Ireland	-	52.9	47.4	-10.40
10	New Zealand	-	18.4	61.8	235.86
Total listed		2509.4	2428.9	2669.6	
Total Unlisted		281.8	262.8	442.9	
Grand Total		2791.2	2691.7	3112.5	15.63

Source: SAWIS

EXCISE DUTY WINE (US \$/Liters)				
February 2005	February 2006	February 2007	February 2008 increases in ZAR cents	Feb 2009* Increases in percentages
Natural wine	0.24	0.68	12c	7.3
Wine-based wine	0.24	0.23	12c	7
Sparkling wine	0.69	0.23	12c	9.9
Fortified wine	0.43	0.42	12c	7.4
Value Added Tax				
April 07,1993 to 2008	14%			

Natural wine = Total of natural wine (HTS 2204) + Bulk wine (Hts 220421)

Sparkling wine (Hts 220410)

*= projected

Industry representatives expressed concern about the government's continuous increases in excise duties for wine and spirits. The industry contributes about \$0.4 billion in excise duties and value added tax (VAT) a year. It therefore expects the government to improve its competitiveness by investing more in research and development. The extra 7.3 percent duties on natural wine and 11 percent on spirits in FY 2008/9 amounted to total increases of 105 percent and 72 percent in excise duties respectively over the last 5 years, while the average grape prices decreased by 30% during the same period.

[Http://www.wine.co.za](http://www.wine.co.za)[Http://www.sawis.co.za](http://www.sawis.co.za)[Http://www.vinpro.co.za](http://www.vinpro.co.za)[Http://www.KWV.co.za](http://www.KWV.co.za)

[Http://www.wosa.co.za](http://www.wosa.co.za)

[Http://www.statssa.gov.za](http://www.statssa.gov.za)

<http://www.iol.co.za>